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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

ORIGINAL

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PATELUNAS TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 7, QUESTION 2

The United States Postal Service hereby provides the response of witness
Patelunas to Presiding Officer's Information Request No. 7, Question 2, issued
December 19, 2001.

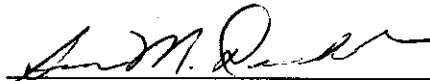
The question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking:



Susan M. Duchek

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January 3, 2002

**RESPONSE OF UNITED STATES POSTAL SERVICE
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2. This is a follow-up to the November 28, 2001 response of witness Patelunas to Presiding Officer's Information Request No. 4. Question 5 pertaining to the Sales Force Augmentation Project.

(a) According to contract proviso B.8 in LR-I-202, commissions are calculated on the basis of the quantity of each individual product sales. Please identify for FY 1999 through 2001, the separate amounts of commissions paid for each of the four products sold.

(b) Please identify all payments made to the contractor other than the commissions, such as: for training fees per contract proviso G.5, offset of lease payments per contract proviso G.6, and other start up or minimum amount payments made to the contractor or on behalf of the contractor.

(c) Please identify costs incurred by the Postal Service that are associated with the program, such as: computer hardware, software or development costs incurred as part of the project, or the management of it; training of contractor personnel per contract proviso B.8; arranging, conducting or analyzing customer satisfaction surveys; and other project development and contract administration costs.

(d) Please identify any other costs that can be associated with the project.

(e) Since commission costs are calculated on the basis of the volume of sales for each product, please explain why commission costs are not attributed to the respective products.

(f) Since commission payments are calculated on the basis of the volume of sales for each product, please explain why project related supervisory, equipment, and other such costs can not be attributed to the products sold on the basis of the distribution of commissions to products.

(g) Please describe in detail how one computes the commission for an individual account on an ongoing basis. For example, provide the commission earned if a new customer in weeks one through five uses Priority Mail five times each week, then uses Priority Mail 10 times a week for weeks 6-10, then uses no Priority Mail for weeks 11-15, and then uses Priority Mail five times a week for weeks 16-20. Please explain your response.

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Response:

(a) The current contract, referred to in the questions and the following responses, was not signed until December 1999; therefore, information is only available for a portion of Fiscal Year 2000 and the entirety of Fiscal Year 2001. As information, a pilot program existed prior to the current contract and under the pilot program commissions were site specific, not product specific. Pilot program commissions for the Atlanta and San Francisco sites were 19.75%, and 16.5% for the Los Angeles site. Also, the pilot program included only three products: Express Mail, Priority Mail and Global Priority Mail. The commissions paid under the current contract were:

	<u>FY00</u>	<u>FY01</u>
Express Mail	\$1,895,584	\$2,976,681
Priority Mail	3,844,120	6,631,720
Global Express Mail	86,495	392,251
Global Priority Mail	253,542	267,912
Total	6,079,741	10,268,564

(b) Payments made to the contractor other than the commissions were:

Training fees- \$2,118,650

IT fees - \$157,200

Hardship Expense due to accelerated implementation schedule- \$57,182.

All the above payments were made in Fiscal Year 2000.

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Response continued:

(c – d) The following table displays the expenses associated with the Sales Force Augmentation program, including the Fiscal Year 1999 expenses of the pilot program:

	<u>FY1999</u>	<u>FY2000</u>	<u>FY2001</u>
Employee Awards	500	0	500
HQ General Mgt.	243,881	240,685	891,734
Travel Other than Trng.	205,906	191,175	59,754
Training	38,895	27,985	11,210
Printing	1,026	0	114
Supplies	14,009	9,970	4,989
Services	194,913	345,930	172,402
Consult Serv.	3,875,276	9,445,423	10,870,895
Advertising	0	32	0
Depreciation	0	2,808	2,807
Miscellaneous	7,432	22,875	19,657
Communications	6,705	15,024	7,404
Information Technology	572	357,771	460,989
Annual Totals	4,589,115	10,659,678	12,502,455

(e - f) Commission costs were charged to accounts 52321 and 52323, which are included in Component 210, Supplies and Services, in Cost Segment 18; Component 210 is not volume variable. Related supervisory, equipment, and other such costs are included in numerous components and cost segments, many with different levels of volume variability. The Postal Service has not specifically studied the treatment of the commission costs.

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Response continued:

(g) The contract provides a unit price (based on the average piece revenue), for each product line to which the commissions will be applied. The unit prices are: Express Mail International \$27.82, Express Mail \$14.49, Priority Mail \$4.37 and Global Priority Mail \$6.69. The hypothetical posed in the question results in the following commissions:

<u>Week</u>	<u>Priority Pieces</u>	<u>Revenue per Piece</u>	<u>Total Revenue</u>	<u>Commission @18.75%</u>
0	0	\$4.37	0	0
1	5	4.37	21.85	4.10
2	5	4.37	21.85	4.10
3	5	4.37	21.85	4.10
4	5	4.37	21.85	4.10
5	5	4.37	21.85	4.10
6	10	4.37	43.70	8.19
7	10	4.37	43.70	8.19
8	10	4.37	43.70	8.19
9	10	4.37	43.70	8.19
10	10	4.37	43.70	8.19
11	0	4.37	0	0
12	0	4.37	0	0
13	0	4.37	0	0
14	0	4.37	0	0
15	0	4.37	0	0
16	5	4.37	21.85	4.10
17	5	4.37	21.85	4.10
18	5	4.37	21.85	4.10
19	5	4.37	21.85	4.10
20	5	4.37	21.85	4.10

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Response continued:

The hypothetical begins in week 0 with no volume or revenue. As a "new customer," the base line is zero pieces per week. After meeting with the Sales Force Augmentation representative, the pieces sold are compared to the base line of zero. Using \$4.37 average revenue per piece, the number of Priority pieces each week is multiplied by this average to calculate Total Revenue. The 18.75% commission is applied to the Total Revenue to determine the commissions paid, as shown in the final column.

DECLARATION

I, Richard Patelunas, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Richard Patelunas", written over a horizontal line.

Dated: 1/03/02

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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January 3, 2002